佳華百貨控股有限公司

Jiahua Stores Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(stock code: 00602)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Jiahua Stores Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 30 June 2021 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**246,998**	224,632
Cost of inventories sold		**(141,351)**	(107,496)
		105,647	117,136
Other operating income	*4*	**47,700**	54,049
Selling and distribution costs		**(135,001)**	(142,917)
Administrative expenses		**(24,375)**	(28,574)
Finance costs	*5*	**(21,765)**	(25,104)
Other operating expenses		**(1,459)**	(24,823)
Operating loss before income tax	*6*	**(29,253)**	(50,233)
Income tax expense	*7*	**(1,111)**	(1,138)
Loss and total comprehensive income		**(30,364)**	(51,371)
Dividend	*8*	**–**	–
Loss per share for loss attributable to the owners of the Company during the period			
– Basic and diluted (RMB cents)	*9*	**(2.93)**	(4.95)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 30 June 2021** *RMB'000* **(Unaudited)**	At 31 December 2020 *RMB'000* (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**216,440**	217,157
Investment properties		**284,600**	284,600
Right-of-use assets		**397,988**	437,402
Intangible assets		**5,772**	5,452
Deposits paid, prepayments and other receivables		**24,310**	27,198
Interests in an associate		**–**	–
		929,110	971,809
Current assets			
Inventories and consumables		**36,245**	26,395
Trade and loan receivables	*10*	**63,422**	59,929
Deposits paid, prepayments and other receivables		**28,736**	55,311
Restricted bank deposit		**2,000**	2,000
Cash and cash equivalents		**67,726**	76,624
Tax recoverable		**66**	66
		198,195	220,325
Current liabilities			
Trade payables	*11*	**79,070**	75,054
Deposits received, other payables and accruals		**88,482**	119,606
Contract liabilities		**17,681**	20,859
Lease liabilities		**62,172**	64,523
Amount due to a director		**59**	59
Borrowings		**3,280**	2,280
Provision for tax		**9,967**	9,651
		260,711	292,032
Net current liabilities		**(62,516)**	(71,707)
Total assets less current liabilities		**866,594**	900,102
Non-current liabilities			
Lease liabilities		**444,064**	474,318
Borrowings		**91,773**	64,663
Deferred tax liabilities		**21,701**	21,701
		557,538	560,682
Net assets		**309,056**	339,420
EQUITY			
Share capital		**10,125**	10,125
Reserves		**298,931**	329,295
Total equity		**309,056**	339,420

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

Jiahua Stores Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are operation and management of retail stores and other related businesses, and provision of financing services.

The unaudited interim condensed consolidated financial statements ("Interim Condensed Financial Statements") of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 30 June 2021 (the "period") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Interim Condensed Financial Statements have been prepared in accordance with the same accounting policies adopted in the audited financial information of the Company for the year ended 31 December 2020 (the "2020 Annual Financial Statements"), except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group and the Company. The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

The preparation of Interim Condensed Financial Statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a period to date basis. Actual results may differ from these estimates.

The Interim Condensed Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the audited financial information of the Company for the year ended 31 December 2020.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

During the period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards, and Interpretations.

The adoption of the new HKFRSs and amendments to HKFRSs has no material impact on the Group's condensed consolidated interim financial statements.

In addition, the Group has early adopted COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to HKFRS 16) ahead of its effective date and applied the amendment from 1 January 2021. The adoption of this new amendment does not have a material impact to the Group's results of operations or financial position.

3. SEGMENT INFORMATION

The Group has identified its operating segments and prepared segment information based on regular internal financial information about resources allocation to the Group's business components and review of these components' performance. There are two business components/operating segments, which are operation and management of retail stores and other related businesses, and provision of financing services (2020: operation and management of retail stores and other related businesses, and provision of financing services).

Certain comparative amounts in segment information have been re-presented to conform to the current period's presentation.

	Operation and management of retail stores and other related businesses *RMB'000* (Unaudited)	**Provision of financing services** *RMB'000* (Unaudited)	**Consolidated** *RMB'000* (Unaudited)
Six months ended 30 June 2021			
Segment revenue	**243,715**	**3,283**	**246,998**
Segment results	**(28,960)**	**2,042**	**(26,918)**
Other unallocated corporate expenses			**(2,335)**
Loss before income tax			**(29,253)**
Other segment information			
Interest income	**(324)**	**(7)**	**(331)**
Additions to non-current assets	**27,974**	**–**	**27,974**
Amortisation of intangible assets	**127**	**49**	**176**
Depreciation of property, plant and equipment	**28,581**	**2**	**28,583**
Depreciation of right-of-use assets	**39,413**	**–**	**39,413**
Interest expense on lease liabilities	**19,417**	**–**	**19,417**
Loss on disposal of property, plant and equipment	**57**	**–**	**57**
At 30 June 2021			
Segment assets	**1,057,757**	**65,498**	**1,123,255**
Tax recoverable			**66**
Other unallocated corporate assets			**3,984**
Total assets			**1,127,305**
Segment liabilities	**784,379**	**482**	**784,861**
Provision for taxation			**9,967**
Deferred tax liabilities			**21,701**
Other unallocated corporate liabilities			**1,720**
Total liabilities			**818,249**

	Operation and management of retail stores and other related businesses *RMB'000* (Unaudited)	Provision of financing services *RMB'000* (Unaudited)	Consolidated *RMB'000* (Unaudited)
Six months ended 30 June 2020			
Segment revenue	221,600	3,032	224,632
Segment results	(50,435)	2,471	(47,964)
Unallocated corporate expenses			(2,269)
Loss before income tax			(50,233)
Other segment information			
Interest income	(859)	(6)	(865)
Additions to non-current assets	12,579	–	12,579
Amortisation of intangible assets	162	58	220
Depreciation of property, plant and equipment	20,790	2	20,792
Depreciation of right-of-use assets	50,033	–	50,033
Interest expense on lease liabilities	25,104	–	25,104
Loss on disposal of property, plant and equipment	2,393	–	2,393
Written off of property, plant and equipment	21,096	–	21,096

	Operation and management of retail stores and other related businesses *RMB'000* (Audited)	Provision of financing services *RMB'000* (Audited)	Consolidated *RMB'000* (Audited)
At 31 December 2020			
Segment assets	1,103,466	46,136	1,149,602
Tax recoverable			66
Other unallocated corporate assets			42,466
Total assets			1,192,134
Segment liabilities	819,121	65	819,186
Provision for taxation			9,651
Deferred tax liabilities			21,701
Other unallocated corporate liabilities			2,176
Total liabilities			852,714

The People's Republic of China ("PRC") is the country of domicile of the Group. The country of domicile is determined by referring to the country which the Group regards as its home country, has the majority of operations and centre of management.

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is the PRC.

Information about a major customer

There was no single customer that contributed to 10% or more of the Group's revenue for the six months ended 30 June 2020 and 2021.

4. REVENUE AND OTHER OPERATING INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	**155,230**	129,378
Commission from concessionaire sales	**13,035**	18,469
Rental income from sub-leasing of shop premises	**31,136**	36,684
Rental income from investment properties	**4,753**	4,320
Rental income from sub-leasing of shopping malls	**39,560**	32,748
Interest income from financing services	**3,284**	3,033
	246,998	224,632
Other operating income		
Interest income	**331**	865
Government grants	**986**	6,406
Administration and management fee income	**15,502**	19,635
Gain arising on early termination of lease contracts	**–**	5,077
Others	**30,881**	22,066
	47,700	54,049

Revenue, which is also the Group's turnover, represents invoiced value of goods sold, net of value added tax and after allowances for returns and discounts, commission from concessionaire sales, rental income and interest income from financing services.

5. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on lease liabilities	**19,417**	25,104
Interest on borrowings	**2,348**	–
	21,765	25,104

6. OPERATING LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss is arrived at after charging:		
Depreciation of property, plant and equipment	**28,583**	20,792
Depreciation of right-of-use assets	**39,413**	50,033
Interest expense on lease liabilities	**19,417**	25,104
Amortisation of intangible assets	**176**	220
Loss on disposal of property, plant and equipment	**57**	2,393
Written off of property, plant and equipment	**–**	21,096
Operating lease rentals in respect of land and buildings	**5,626**	1,586
Staff costs, including directors' emoluments		
– salaries and other benefits	**30,316**	39,685
– contributions to pension scheme	**4,819**	2,841
and crediting:		
Rental income from investment properties	**4,753**	4,320
Sub-letting of properties		
– Base rents	**66,637**	66,984
– Contingent rents*	**4,059**	2,448
	70,696	69,432

* Contingent rents are calculated based on a percentage of the relevant sales amount of the tenants pursuant to the rental agreements.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
PRC enterprise income tax	1,111	1,138

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the period (six months ended 30 June 2020: Nil).

No provision for Hong Kong Profits Tax has been made as the Group had no estimated assessable profits in Hong Kong for the period (six months ended 30 June 2020: Nil).

For a subsidiary of the Group in Guangxi, its PRC Enterprise Income Tax has been provided at the preferential enterprise income tax rate of 15% (2020: 15%) for the period pursuant to the privilege under the China's Western Development Program (西部大開發計劃).

Other subsidiaries of the Group established in the PRC were mainly subject to PRC Enterprise Income Tax at the rate of 25% (2020: 25%) for the period under the income tax rules and regulations of the PRC.

Pursuant to the Detailed Implementation Regulations for implementation of the new Corporate Income Tax Law of the PRC issued on 6 December 2007, a 10% withholding income tax shall be levied on the dividends remitted by the companies established in the PRC to their foreign investors starting from 1 January 2008. Dividends declared or proposed out from the profits generated by the PRC companies after 1 January 2008 shall be subject to this withholding income tax.

8. DIVIDEND

(a) The Board of Directors does not recommend the payment of an interim dividend for the period (six months ended 30 June 2020: Nil).

(b) Dividend attributable to the previous financial year, approved and paid during the period:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous year, approved and paid during the period, of RMB Nil (six months ended 30 June 2020: RMB Nil) per share	**–**	–

9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the owners of the Company for the period of approximately RMB30,364,000 (six months ended 30 June 2020: loss of approximately RMB51,371,000) and the weighted average number of approximately 1,037,500,002 (six months ended 30 June 2020: approximately 1,037,500,002) ordinary shares in issue during the period.

Diluted earnings per share were same as the basic earnings per share as there were no other potential dilutive ordinary shares in existence during the periods.

10. TRADE AND LOAN RECEIVABLES

All of the Group's sales are on cash basis except for trade receivables from certain bulk sales of merchandise to corporate customers, rental income receivables from tenants and loan receivables from provision of financing services. The credit terms offered to the customers from operation and management of retail stores are generally for a period of one to three months, while to customers from financing services are repayable on demand or one to seven months. Trade receivables were non-interest-bearing, except for loan receivables from provision of financing services.

The aging analysis of the Group's trade receivables, based on invoice dates, is as follows:

	At 30 June 2021	At 31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 30 days	**20,788**	15,705
31 – 60 days	**1,565**	1,257
61 – 180 days	**1,628**	781
181 – 365 days	**994**	1,688
Over 365 days	**–**	73
	24,975	19,504

The aging analysis of the Group's loan receivables is as follows:

	At 30 June 2021	At 31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Repayable on demand or within one year	**38,447**	40,425
Total	**63,422**	59,929

11. TRADE PAYABLES

The credit terms granted by suppliers are generally for a period of 30 to 60 days.

The aging analysis of the trade payables, based on invoice dates, is as follows:

	At 30 June 2021	At 31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 30 days	**12,991**	35,649
31 – 60 days	**14,396**	20,482
61 – 180 days	**44,460**	9,718
181 – 365 days	**2,310**	3,527
Over 1 year	**4,913**	5,678
	79,070	75,054

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2021, domestic consumption has replaced investment and exports, and become the main driving force of economic growth. Due to the closing of the urban-rural income gap and the upgrading of retail channels, the importance of lower-tier cities and rural areas will increase, creating new opportunities for consumption growth. Best sales performance is largely due to the recovery of the consumer market after the pandemic and the vigorous development of e-commerce. In terms of market trends, Omni-Channel retailing will be the main area of competition among retailers, with the goal of retaining existing customers. Video live streaming promotion will be one of the main sales channels for online retail, and the recovery of the catering industry and cross-border e-commerce will become more popular.

China's fast-moving consumer goods market mainly covers four major sectors, including packaged food, beverages, personal care and home care. Although the prices of beverages and packaged foods both fell last year, the sales of packaged foods have grown against the trend. As the public's health awareness continues to increase, consumers' demand for care products continues to rise, especially personal and home care. During the pandemic, consumers first concern protecting the safety and health of themselves and their families. During the home quarantine period, consumers across the country were worried about food shortages and thus accumulated food, which pushed up the sales of food. In terms of sales channel, e-commerce sales is the only pipeline with rapid growth. Among them, live broadcast e-commerce has doubled, with apparel, skin care products and packaged foods taking the lead. In addition, as more and more consumers spend at home, online and offline (O2O) sales channels have been popular, and sales have soared. Convenience store is the only stable channel, and has returned to pre-pandemic sales levels. The pandemic also gave birth to community group buying, that is, the internet platform uses a pre-sale plus self-pickup model to use the "community leader" to conduct bulk shopping.

The pandemic has made the consumption classes more obvious. Consumer demand has changed, with the trend of luxury spending exists. However, many consumers adopt a more cautious spending attitude and concern promotional activities, leading to two different needs and the pursuit of cost-effectiveness. The differentiation is accelerated, and consumption is showing a trend of diversification and grading. The competitive landscape in China's offline retail market is fragmented. New competitors are quickly grabbing market share, and the online market is becoming increasingly diverged and competitive. With the use of digital methods, the shopping channels of customer are scattered and interchangeable. Especially the youth generation, cognition, preference, purchase, loyalty are more supportive to the digital environment. During the pandemic period, work from home accelerated the transformation of sales channels and platforms. Traditional offline billboards and mall promotion can no longer effectively reach consumers. Retailers need to adopt a variety of online sales models, including online live broadcasts, social platforms, short videos, online advertisements, and other online methods to increase touch and interaction with customers. The pandemic has accelerated the migration of consumers online, while offline customer flow dropped significantly, forcing offline retailers to seek cooperation partner to accelerate transformation. At the same time, online platforms are actively seeking cooperation with offline retailers to overcome their retail incapabilities, such as local supply and resource scheduling. Currently, the online penetration rate in high-tier cities is close to saturation, and competition in various online platforms is fierce. However, the needs of lower-tier cities and below have not yet been met, and there is still room for development. With the gradual improvement of e-commerce infrastructure (such as digital facilities and networks, modern supply chains, etc.), as well as the strategy of internet service providers, e-commerce in low-tier cities may usher in fast development. At present, most of the new customers of many e-commerce retailers come from low-tier cities, and the battlefield of retailers has shifted from high-tier cities to middle- and low-tier cities. As the customer hunting cost of traditional e-commerce platforms has increased year by year, the e-commerce industry has fierce competition. At the same time, the development of social interchange and content enrichment has made the fragmentation and decentralization of online customer acquisition channels more obvious. The dominance of commodity trading has gradually transitioned from a quantity oriented to supply chain platform oriented. The value of the back-up supply chain is apparent. Supply chain service providers integrate the entire industry chain, coordinate business flow, information flow, logistics, and capital flow to provide one-stop services.

In recent years, shopping malls have become the main format of the domestic retail industry. Communities, regional shopping malls and outlets have become the choices of consumers in the post-pandemic era. With the decline of the city level, consumers have increasing demand to regional shopping malls, indicating that consumers in lower-tier cities have a stronger preference for daily shopping convenience. In the post-pandemic period, the frequency of visit of shopping diverged. Some consumers have increased their frequency due to the weakened after the pandemic, and some have changed their habits due to the danger of pandemic, reducing the frequency of patronage. The consumption practices are different under different companionship modes. Friends and colleagues have the most abundant consumer need for shopping, and their social attributes obviously stimulate joint consumption together. Shopping alone has specific purpose, there are more consumption categories as no time restriction. The purpose of shopping with children are numerous, mainly focusing on catering, family shopping and livelihood service. Consumers expect more software and hardware amenities in shopping malls. Although overall satisfaction has increased, specific indicators have shown a downward trend. Consumers are not only satisfied with shopping malls to provide standard needs, but also look forward to shopping venues with compatibility and complexity. Domestic consumers have generally satisfied with shopping mall formats, but they have more demand for experience, cosmetic, digital electronic, especially livelihood service formats. The pandemic made offline experience indispensable, and the future will still focus on offline consumption. The purchase categories are more concentrated, mainly in the food and clothing categories; Retail commodity category is the main category that consumers move to online consumption during the pandemic. Nowadays, consumers are requiring a sense of experience and technology for shopping malls. Young customer want to receive professional image services; high-income consumers want to go shopping with internet; frequent shopping members of shopping malls have a higher demand for community needs; fashion pioneers want shopping malls to provide professional shopping guides. Consumers encourage routine and refinement of the shopping center's pandemic prevention work. Temperature measurement and mask wearing are compulsory during the pandemic, while the disinfection and maintenance of hardware facilities in shopping centers and the sterilization of specific areas are the important preventive measures. Shopping malls need a higher membership loyalty, which will become a battlefield for the operation of shopping malls in the future.

According to the National Bureau of Statistics, the gross domestic product in the first half of 2021 reached approximately RMB53.2 trillion, an increase of approximately 12.7% over the same period last year.

In the first half of the year, the total retail sales of consumer goods were approximately RMB21.2 trillion, a year-on-year increase of approximately 23.0%. Among them, the retail sales of consumer goods of enterprises above threshold were approximately RMB7.9 trillion, a year-on-year increase of approximately 26.4%. According to the location of the business unit, the retail sales of consumer goods in urban areas was approximately RMB18.4 trillion, a year-on-year increase of approximately 23.3%; the retail sales of consumer goods in rural areas was approximately RMB2.8 trillion, a year-on-year increase of approximately 21.4%. In terms of consumption patterns, catering revenue was approximately RMB2.2 trillion, an increase of approximately 48.6%; retail merchandise was approximately RMB19.0 trillion, an increase of approximately 20.6%. In the retail sales of goods, the retail sales of enterprises above threshold was approximately RMB7.4 trillion, an increase of approximately 24.8%. In the first half of the year, national online retail sales were approximately RMB6.1 trillion, a year-on-year increase of approximately 23.2%. Among them, the online retail sales of physical goods was approximately RMB5.0 trillion, an increase of approximately 18.7%, accounting for approximately 23.7% of the total retail sales of consumer goods. In the online retail sales of physical goods, food, clothing and consumer goods increased by approximately 23.5%, 24.1% and 16.7% respectively. Classified by retail format, the retail sales of supermarkets, convenience stores, department stores, specialty stores and discount stores in retail units above threshold during the period increased by approximately 6.2%, 17.4%, 29.5%, 24.6% and 32.4% year-on-year respectively.

Looking forward to 2021, the pandemic will continue to have a direct impact on the retail industry from the perspective of aggregate demand, and will continue to reshape the entire retail industry by changing the behavior of consumers and retailers. Affected by the pandemic, consumers will continue to face economic uncertainty, so they will have cautious spending to avoid excessive consumption. Consumers' demand for self-service and touchless shopping and mobile payment and online shopping will be more widely accepted. The reliance of consumers on social groups and interpersonal interaction triggered by the pandemic will enable community group buying and social media businesses to continue to flourish. The pandemic has caused social distancing and continued offline consumption restrictions, which will make the role of home digital entertainment and real spending experience become more and more important. Online gaming and electronic sports are expected to maintain a rapid growth trend, augmented reality, video channel, as live broadcasting, will become important marketing channels. The digital innovation of China's retail industry will continue to become a model for predicting the development trend of the global retail industry.

BUSINESS REVIEW

For the six months ended June 30, 2021, the Group's total revenue was approximately RMB247.0 million, an increase of approximately 10.0% year-on-year; gross profit was approximately RMB13.9 million, a year-on-year decrease of approximately 36.5% ; operating loss was approximately RMB29.3 million, a year-on-year decrease of approximately 41.6%; the loss attributable to equity holders of the parent company was approximately RMB30.4 million, a year-on-year decrease of approximately 40.9%. At the end of the period, there were 9 retail stores and two shopping malls. The increase in revenue was mainly due to the Group's active development of online sales and leasing of shopping mall has entered into a mature stage. However, the pandemic continued to affect the overall economic environment. The adjustment and upgrading of stores partially affected operations, and the closing of three stores during last year which reduced the revenue this period has offset the increase. During the period, it was mainly for upgrading to increase revenue and reduce expenditure, so as to retain strength to meet future challenges. Commodity sales increased by approximately RMB25.8 million, commissions from concessionaire sales decreased by approximately RMB5.5 million, rental income from sub-leasing of shop premises decreased by approximately RMB5.6 million, investment property income increased by approximately RMB0.5 million, and rental income from sub-leasing of shopping malls increased by approximately RMB6.9 million, and interest income from financing services increased by approximately RMB0.3 million. The Group adopts a proactive and stable business strategy, provides value-added services to physical retail stores, and also seeks and develops potential profit opportunities for other investment projects, and begins to plan the preparatory work for the expansion of its branch network and shopping mall in the coming year.

Looking back at the first half of 2021, the Group has made the following major highlights in terms of operations.

(1) Implement a series of business improvement measures in response to the economic environment and pandemic situation

During the period, the marketing department put forward a series of measures on the operating conditions. First, we focus on customer group research by strengthening research on consumer needs and preferences, and formulating product needs for young customers. Besides, we push promotional information to neighboring communities to increase customer attention. In addition, the product structure is revised to optimize the category structure and brand mix. We engaged professional data research companies to gain insights into the needs of consumers. The Longhua Store, which is our flagship store, has been undergoing adjustment and enhancement to create a commercial space that offers life, fashion and quality style. The Longhua Supermarket, based on the concept of diversified formats and lifestyle spirit to meet consumer needs, has created a G4 Baijiahua supermarket, which has improved the customer shopping experience and added a gourmet tasting area to guide customers to experience elite taste. Consumers will feel a boutique supermarket as well as the high-end fashion lifestyle. We also focus the importance of online ability by increasing the promotion channels of new media, and cooperate with video companies to launch the operation of Tiktok and visual video accounts. As the main platform for new expansion, Mini program is used to expand the sales scope through accurate promotion to the community, and timely promotional activities. During the period, the Group increased the development of group purchases, conducted visits to the surrounding communities, and regularly entered the communities to provide convenience services and value-added services. We developed group purchase market share increments, increased sales and business income, and fully utilize the floor space to increase income. We also create scene display for the slow selling items, increase shopping guide signs, guide consumption and increase customer order. We increase the proportion of concessionaire sales and joint sales counters, launch special activities, and improve the venue and customer flow into the store. Finally, we target to build a talent echelon and young team.

(2) Strengthen the store safety management to reduce potential safety hazards

During the period, the group conducted a thorough store inspection and maintenance of fire protection system, electrical and supporting facilities, and operating equipment (including elevators, air-conditioning systems, smoke exhaust pipes, etc.), and provided safety knowledge training and drills to all employees to enhance disaster prevention awareness. In addition, regular monthly safety meetings are held to solve hidden safety hazards in stores, and comprehensive inspections of facilities are carried out to ensure normal daily operation. Replacement of parts of cooling tower and wind cabinet to ensure normal operation and saves costs. Inspection of store decoration site is taken to prevent illegal operations by workers during the process in a timely manner. The Company strengthens internal control by carrying out regular inventory count of all fixed assets of stores, procurement center, shopping malls and head office, to ensure correct balance and reasonable retirement. This is used to update system data and keep accurate records. In addition, the job assignment mechanism is established to reduce operation and man-made losses and protect the group's property. Periodic adjustments and rotation to staff positions, detailed allocation plans are used to support comprehensive performance appraisal, and improve human resource incentive plans. In addition, safety management is introduced to old store adjustment and upgrade plan, and store design technique is employed to make full use of resources and reduce engineering costs. Strengthening the protection mechanisms and introducing effective alert system. The Company will conduct anti-terrorism and flood prevention drills and trainings to safeguard the safety of employees, customers and group property.

(3) Improve office administration and strengthen corporate culture

During the period, the Group actively carried out employee appraisal assessment to familiar employees' knowledge of their positions and test problem-solving abilities. Salary is adjusted according to performance to reduce controllable expenses. Conduct stock count of materials and fixed assets to improve internal control. The Group completes the human resources planning to improve the staff salary structure and position effectiveness, and to implement a scientific and fair compensation system. Besides, the "2021 Performance Appraisal Incentive Plan" and the "Job duty Appraisal Mechanism" have been issued to better the performance appraisal system. Formulate a new organizational structure by refining the departments/stores to optimize personnel management. Put forward labor contract management by arranging signing and renewal of employment contracts in a controlled manner. For recruitment and allocation, every department needs to complete the "Job Responsibilities and Work Instructions" to provide scientific basis for talent recruitment and salary assessment. Perfect the recruitment process through different channels, and continue to recruit of proper person for key positions. Actively develop talent pipelines and connect with education and training institutions. Improve the recruitment mechanism and issue the "External Recruitment Interview Operation Guidelines" and "Internal Recruitment Operation Guidelines". For the building of corporate culture, employee care activities and organized annual manager-level and director-level experience trial were held. For training and talent development, management personnel training, leadership training camps, and external expert teachers were used to stimulate thinking innovation, help brainstorm new ideas and step up knowledge.

(4) Implement measures to enhance income source and reduce expenditure to cope with fierce competition in the shopping mall industry

The group currently operates two large shopping malls to adapt to the new retail era. Operating performance continues to improve, and the business model has also been integrated. Shenzhen Bantian Ling Hui shopping mall was awarded the "China Shopping Mall Industry Star Award 2020" during the period by continuously optimizing the brand name and upgrading services. In order to give customers a fresh outlook for a one-stop shopping, the management has reassessed the market and passenger flow of the mall, completed a large-scale brand upgrade and adjustment, accurately positioned the customer group, and enriched the offering category. The upgrade is focused on thematic, differentiated, and refined operations, and will bring up new and exciting shopping environments to become the Key Opinion Leader in Bantian area. Newly added brands included Green Tea, Hanyang Ting, Yue Dexian Tea House, Pang Gelia, Walaida, Xiabu Xiabu, Luckin Coffee etc. On the other hand, Longgang Guanlan Ling Yu shopping mall successfully introduced a variety of business brands such as supermarket, cinema, catering, retail, entertainment, and kid's accessories. The shopping mall has introduced more than 10 popular food and beverage brands, including global brands – Starbucks, pioneers in the grilled fish industry – Tan Yu, Hunan traditional food – Da Fulan, as well as snack food Fook, Mei Yi Mei and A Gan Guo Kui etc. In addition, a number of kid's brands, including Nike children's clothing, Balabala, Annil, Xiaotiancai and Bobogao. The matching of various children's accessories provides more choices for children's childhood life! In response to the needs of families and young consumers, Ling Yu shopping mall has selected a combination of retail brands. Fashion brands such as Hot Wind and The Green Party can satisfy young people's personalities, Huaqiwu-china can also make life full of small fortunes. In times which appearance is important, we have also invited first-class brand name. Among them, Zhongying Dejin Cinema, Sishi Beauty Salon, MINISO, and Taimokaka are in our malls.

(5) Develop online sales and expand member customer base

Currently, Baijiahua's O2O business is divided into two aspects: private domain and public domain. Private domain traffic is the mall of Baijiahua's Mini program ("Mini program"). Public domain is linked to Meituan Supermarket, Ele.me, JD Daojia and Seafood Da platforms. During the period, the registration rate of the Mini program continued to increase. Through Jiahua Farm, daily check-in, new interactive strategies and increasing the number of products, we hope to cultivate users' repeated shopping habits. Besides, we start to offer movie tickets, catering, entertainment, and education to bring up traffic flow, increase diversity and attractiveness. The Group has optimized promotional activities by peer group and public account notifications, and improved Mini program and customer account management system. Live events and pages for customers are used to stimulate sales. The cooperation with three major O2O platforms, namely Meituan Supermarket, JD Daojia, and Ele.me, has been refined and systematic, and has been matured to enhance sales and customer experience. Among them, the sales platform of Ele.me's is relatively good, due to combination of supplier subsidy promotion and in-store marketing activities. We will probably engage Tmall supermarkets, banks, telecommunications providers and brand alliances to increase customer contact and increase sales.

OUTLOOK AND FUTURE PROSPECTS

The year 2021 has both opportunity and challenge existed, the Group has prepared to cope with all difficulties, to make use of our core competency in the industry.

Looking ahead, China is still under the fast pace of development stage. The macro-economic condition has significant impact to the industry. Rapid growth in information technology has direct and critical effect to the industry. The directors are confident towards the future. The mission of the Group is to become one of the major operators in the retail industry.

The Group will follow the trends, more innovative, and expand its income source and improve its operating performance through other means like merger and acquisition to enhance its competitive advantage, to explore new business opportunities and to uplift the value of the Company.

FINANCIAL REVIEW

Revenue

For the six months ended June 30, 2021, the Group's revenue was approximately RMB247.0 million, representing an increase of approximately 10.0% from approximately RMB224.6 million in the same period in 2020. The increase in revenue was mainly due to an increase of approximately RMB25.8 million in sales of goods, an increase of approximately RMB0.5 million in rental income from investment properties, an increase of approximately RMB6.9 million in rental income from sub-leasing shopping malls, and an increase of approximately RMB0.3 million in interest income from factoring business. However, commissions from concessionaire sales fell by approximately RMB5.5 million, and rental income from sub-leasing shop premises fell by approximately RMB5.6 million, offsetting the overall increase.

Sales of goods increased by approximately 19.9% from approximately RMB129.4 million in the same period in 2020 to approximately RMB155.2 million for the six months ended June 30, 2021, mainly due to increase in O2O business. During the period, due to the continued impact of the pandemic, the popularity of online sales and the closure of three retail stores ("the closed stores"), namely Shajing, Xixiang and Sanlian stores, last year led to a decrease in the sales of goods in the stores. However, the Group has actively developed online business, which has led to a rebound in overall sales. In addition, there was no government issuing coupons to boost sales during the year. The Group has adjusted the area of direct sales to increase the leisure shopping experience, and increased promotional activities to attract online customers. The percentage of sales of goods to the total revenue of the Group for the six months ended June 30, 2021 was approximately 62.8%, compared to approximately 57.6% in the same period in 2020.

Commissions from concessionaire sales decreased by approximately 29.7% from approximately RMB18.5 million in the same period in 2020 to approximately RMB13.0 million for the six months ended June 30, 2021. This was mainly due to the continued impact of the pandemic, the transfer of fresh food counters to self-operating counters in stores and the closed stores. For the six months ended June 30, 2021, commissions from concessionaire sales accounted for approximately 5.3% of the Group's total revenue, compared to approximately 8.2% for the same period in 2020.

The rental income of sub-leasing shop premises decreased by approximately 15.3% from approximately RMB36.7 million in the same period in 2020 to approximately RMB31.1 million for the six months ended June 30, 2021, mainly due to the closed stores. The rental income of sub-leasing shop premises accounted for approximately 12.6% of the Group's total revenue for the six months ended June 30, 2021, compared to approximately 16.3% for the same period in 2020.

Rental income from investment properties increased by approximately 11.6% from approximately RMB4.3 million in the same period in 2020 to approximately RMB4.8 million for the six months ended June 30, 2021, mainly due to the rent-out of two tenants premises who has early terminated its lease contract last year. Rental income from investment properties accounted for approximately 1.9% of the Group's total revenue for the six months ended June 30, 2020, compared to approximately 1.9% for the same period in 2020.

Rental income of sub-leased shopping mall for the six months ended June 30, 2021 was approximately RMB39.6 million, an increase of approximately 21.1% from approximately RMB32.7 million in the same period in 2020. It was mainly due to the commencement of business of Longguan Guanlan Shopping mall in 2020 and the rental income in the same period was not mature. The rental income from sub-leasing shopping mall accounted for approximately 16.0% of the Group's total revenue for the six months ended June 30, 2021, compared to approximately 14.6% for the same period in 2020.

Interest income from financing services increased by 10.0% from approximately RMB3.0 million in the same period in 2020 to approximately RMB3.3 million for the six months ended June 30, 2021, mainly due to the increase in business from a major customer. Interest income from financing services accounted for approximately 1.3% of the Group's total revenue for the six months ended June 30, 2021, compared to approximately 1.4% for the same period in 2020.

Other operating income

Other operating income decreased by approximately 11.8% from approximately RMB54.1 million in the same period in 2020 to approximately RMB47.7 million for the six months ended June 30, 2021, mainly due to the decrease in government subsidy by approximately RMB5.4 million, the cessation of COVID-19 related rent concession by approximately RMB8.5 million, and the reduction of gain from early termination of lease agreement by approximately RMB5.1 million. However, the increase in revenue from the collection of utility expenses by approximately RMB11.7 million offset most of the decline.

Inventory purchases and changes

For the six months ended June 30, 2021, the amount of inventory purchases and changes was approximately RMB141.4 million, an increase of approximately 31.5% from approximately RMB107.5 million in the same period in 2020, mainly due to the increase in sales of goods. For the six months ended June 30, 2021, inventory purchases and changes accounted for approximately 91.1% of sales of goods, compared to approximately 83.1% in the same period in 2020.

Staff cost

Staff costs decreased by 17.4% from approximately RMB42.5 million in the same period in 2020 to approximately RMB35.1 million for the six months ended June 30, 2021. This was mainly due to the closure stores and the streamlining of manpower.

Amortization of ROU assets

The amortization of ROU assets decreased by approximately 21.2% from approximately RMB50.0 million in the same period in 2020 to approximately RMB39.4 million for the six months ended June 30, 2021, mainly due to the closed stores last year.

Depreciation of property, plant and equipment

Depreciation on property, plant and equipment increased by 37.5% to approximately RMB28.6 million for the six months ended 30 June 2021 from approximately RMB20.8 million in the corresponding period in 2020, mainly due to the enhancement and adjustment of major stores and shopping malls in Shenzhen.

Operating lease rental expenses

Operating lease rental expenses increased by 2.5 times from approximately RMB1.6 million in the same period in 2020 to approximately RMB5.6 million for the six months ended June 30, 2021, mainly due to the increase in short-term leases during the period.

Other operating expenses

Other operating expenses for the six months ended June 30, 2021 were approximately RMB1.5 million, representing a decrease of approximately RMB23.3 million from approximately RMB24.8 million in the same period in 2020, mainly due to the closure of last year The fixed asset write-off expenses and the fixed asset disposal loss of approximately RMB21 million and approximately RMB2.4 million respectively were incurred.

Financial costs

Interest on lease liabilities was approximately RMB19.4 million and interest on bank borrowings was approximately RMB2.3 million for the six months ended June 30, 2021 arising from the adoption of HKFRS 16, a decrease of approximately RMB3.3 million from approximately RMB25.1 million on lease liabilities in the same period in 2020, mainly due to the decrease in most of lease liabilities.

Operating loss

For the above reasons, the Group's operating loss for the six months ended June 30, 2021 was approximately RMB29.3 million. The Group's operating losses for the six months ended June 30, 2020 recorded approximately RMB50.2 million.

Income tax expense

Income tax expenses decreased by 2.4% from approximately RMB1.14 million in the same period in 2020 to approximately RMB1.11 million in the six months ended June 30, 2021. This was mainly due to the same level of assessable profits during the period. For the six months ended June 30, 2021, the effective tax rate applicable to the subsidiaries of the Group was 25% (Guangxi tax rate was 15%). In addition, according to the PRC Corporate Income Tax Law, the Group is required to pay withholding tax on dividends distributed by subsidiaries established in the PRC, and the applicable tax rate is 10%.

Loss attributable to equity shareholders of the company

Based on the foregoing, the loss attributable to shareholders for the six months ended June 30, 2021 was approximately RMB30.4 million, which was a decrease from the loss of approximately RMB51.4 million for the same period in 2020.

Subsequent Events

The Group did not have any other significant events taken place subsequent to 30 June 2021.

Risk Management

The activities of the Group expose it to a variety of financial risks, including foreign exchange risk, credit risk, interest rate risk, and liquidity risk.

(i) Foreign currency risk

The Group has operation in the PRC so that the majority of the Group's revenues, expenses and cash flows are denominated in Renminbi (RMB). Assets and liabilities of the Group are mostly denominated in RMB and Hong Kong Dollars (HK$). Any significant exchange rate fluctuations of foreign currencies against RMB may have financial impact to the Group.

(ii) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's maximum exposure to credit risk is the carrying amounts of cash and bank balances, trade and loan receivables, deposits paid and other receivables. For the operation and management of retail stores and other related businesses, the Group has no significant concentrations of credit risk. Most of the sales transactions were settled in cash basis, by credit card payment or through online payment platforms. Credit terms are only offered to corporate customers with whom the Group has an established and ongoing relationship. Regarding trade receivables arising from rental income, the Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. Receivables are regularly reviewed and closely monitored to minimise any associated credit risk. The Group's trade receivables, deposits paid and other receivables are actively monitored to avoid significant concentrations of credit risk. The Group is not exposed to any significant credit risk from any single counterparty or any group of counterparties having similar characteristics. The Group's bank deposits were deposited with major financial institutions in Hong Kong and the PRC, which management believes are of high-credit-quality without significant credit risk.

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on cash and bank balances. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

(iv) Liquidity risk

The Group's policy is to maintain sufficient cash and bank balances and have available funding to meet its working capital requirements. The Group's liquidity is dependent upon the cash received from its customers. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Employee Information, Remuneration Policies

As at 30 June 2021, the Group had 757 full-time employees (as at 30 June 2020: 725). The salaries of the Group's employees were determined by the individual performance, professional qualification, industry experience of the employee and relevant market trends. The management reviews the remuneration policy of the Group on a regular basis and evaluates the working performance of the employees. The remuneration of the employees includes salaries, allowances, year-end bonus, social insurance or mandatory pension etc.

Use of Proceeds raised from listing

The net proceeds raised from the Company's newly issued and listed shares on the Stock Exchange in 8 May 2007 (after deduction of related issuance expenses) amounted to approximately HK$265,000,000. As of 30 June 2021, approximately HK$207,834,000 of the proceeds so raised was used, and the unused proceeds of approximately HK$57,166,000 was deposited with banks, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HK$207,834,000 are set out as follows:

- as to approximately HK$29,000,000 for acquisition of the business of a retail chain in Shenzhen, the PRC;

- as to approximately HK$28,300,000 for opening of new stores in Yanbu Foshan and Ronggui Foshan, the PRC;

- as to approximately HK$8,750,000 for opening of a new store in Nanning Guangxi, the PRC;

- as to approximately HK$4,350,000 for opening of two new stores in Xinan Baoan Shenzhen, the PRC;

- as to approximately HK$10,400,000 for opening of a new store in Luohu Shenzhen, the PRC;

- as to approximately HK$15,800,000 for opening of a new store in Buji Shenzhen, the PRC;

- as to approximately HK$14,300,000 for opening of another new store in Nanning Guangxi, the PRC;

- as to approximately HK$3,690,000 for opening of a new supermarket in Bantian Longgang, Shenzhen, the PRC;

- as to approximately HK$8,800,000 for opening of a theme restaurant and two beverage kiosks in Shenzhen, the PRC;

- as to approximately HK$3,600,000 for opening of a theme restaurant and a Chinese restaurant in Baoan and Longgang Shenzhen, the PRC respectively;

- as to approximately HK$9,200,000 for setting up of a procurement centre in Shiyan Shenzhen, the PRC;
- as to approximately HK$12,919,000 for the purchase of transportation equipment;
- as to approximately HK$15,000,000 for the purchase of office equipment;
- as to approximately HK$3,000,000 for the upgrade of the MIS;
- as to approximately HK$725,000 to promote the Company's brand image; and
- as to approximately HK$40,000,000 for the refurbishments of existing retail stores.

The unused proceeds will be used by the Company for the purposes as set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 8 May 2007 and subsequent announcements related to the adjustment of use of IPO proceeds.

Contingent Liabilities

As at 30 June 2021, the Group has no significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company had complied with the provisions of the Code throughout the Period save as disclosed below.

Code provision E.1.2 of the Code requires that the chairman of the board should attend the annual general meeting. Mr. Zhuang Lu Kun, the Chairman of the Board was unable to attend the annual general meeting of the Company held on 8 June 2021 due to his other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Mode Code") as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific detailed enquiries made with all Directors, the Company confirms that all Directors have fully complied with the required standards set out in the Model Code during the six months ended 30 June 2021.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 30 April 2007. The remuneration committee, which comprises the three Independent Non-executive Directors and one Executive Director, is responsible for reviewing and determining the appropriate remuneration policies of the Directors and senior management and making recommendations to the Board from time to time.

NOMINATION COMMITTEE

The Company has established a nomination committee on 30 April 2007. The nomination committee, which comprises the three Independent Non-executive Directors, is responsible for determining the criteria for identifying candidates suitably qualified, reviewing nominations for the appointment of Directors to the Board and making recommendations to the Board regarding any proposed changes.

AUDIT COMMITTEE

The Audit Committee consists of three non-executive Directors, namely Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji. Mr. Chin Kam Cheung, who holds the appropriate professional qualifications as required under Rule 3.10(2) and Rule 3.21 of the Listing Rules, serves as the chairman of the Audit Committee. The primary duties of the Audit Committee include examining independently the financial positions of the Company, overseeing the Company's financial reporting system, risk management and internal control system, the audit process and proposals of internal management, communicating independently with, monitoring and verifying the work of internal audit and external auditors. The Audit Committee reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function), risk management systems and processes and the reappointment of the external auditor and fulfilled duties as required aforesaid. The Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor. They also reviewed the unaudited interim result for the six months ended 30 June 2021. There are proper arrangements for employees, in confidential, to raise concerns about possible improprieties in financial reporting, internal control and other matters. The written terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

INTERIM REPORT

The 2021 Interim Report will be despatched to shareholders and published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.szbjh.com) in due course.

For and on behalf of the Board
Jiahua Stores Holdings Limited
Chairman
Zhuang Lu Kun

Shenzhen, the PRC, 30 August 2021

As at the date of this announcement, the Board comprises:

Executive Directors:
Zhuang Lu Kun, Zhuang Pei Zhong, Zhuang Xiao Xiong

Independent Non-executive Directors:
Chin Kam Cheung, Sun Ju Yi, Ai Ji